

TO: Administrative Entities/Grant Recipients

FROM: Jeffrey L. Golc, Deputy Commissioner
Field Operations/Program Development

DATE: February 25, 1999

SUBJECT: **DWD Communication** 98-43
Policy for Welfare-to-Work IDA's

RE: Welfare-to-Work Program

Purpose

The Administrative Entities/Grant Recipients (AE/GRs) of Welfare-to-Work (WtW) funds may establish Individual Development Accounts (IDAs) for WtW clients, once they are employed, in order to:

- Create in clients the habit of saving;
- Teach economic literacy;
- Bring the client into the economic mainstream;
- Connect clients with a viable, hopeful future;
- Encourage longer term planning;
- Stimulate the development of human capital;
- Establish stronger ties with the community;
- Encourage more participation in citizenship;
- Create in clients a stake in the community; and
- Increase the household stability of the clients' children.

Citation

20 CFR §645.220, and 'Supplementary Information'
PRWORA of 1996 Section 404(h)

Rescission

None

Content

A. Policy Requirements

The AE/GRs of Welfare-to-Work funds may establish Individual Development Accounts (IDAs) for WtW clients, once they are employed.

IDAs will consist of two inter-related parts: (1) a restricted-use savings account with a state or federally chartered financial institution; and (2) a claim on Welfare-to-Work funds proportional to the balance of earned income (and interest) deposited in the client's savings account, subject to a locally determined match ratio.

The federal regulations specify that IDAs "are authorized by section 403(a)(5)(C)(v)(I) of the Act. They are described in detail at section 404(h)," which specifies the following:

1. Uses of the account funds shall be restricted as follows:
 - a. Directly paying the costs (tuition, fees, books, supplies, and equipment) at an accredited institution of higher education (as described in section 481 (a)(1) or 1201 (a) of the Higher Education Act of 1965 (20 U.S.C. 1088(a)(1) or 1141(a)) for the client;

- b. Directly paying the costs (listed in part 1. a. above) associated with an accredited vocational school (as defined in subparagraph (C) or (D) of section 521 (4) of the Carl D. Perkins Vocational and Applied Technology Education Act (20 U.S.C. 2471 (4))) for the client;
- c. Directly paying the costs (listed in part 1. a. above) associated with an accredited or licensed training program that may lead the client to employment in the field;
- d. Directly paying the downpayment, settlement, financing, or closing costs on the purchase of a primary residence for the client if that client has not had primary ownership of a home during the 3 years prior to the date of acquisition of this one, in accordance with PRWORA of 1996;
- e. Beginning or purchasing part or all of a business; That is, directly paying into a business capitalization account in a federally insured financial institution in an account with use restricted solely to business capitalization expenses, including capital, plant, equipment, working capital, and inventory expenses.

By agreement with the financial institution managing the IDAs, withdrawals from the account shall require the signatures of both the client and the case manager overseeing his/her progress.

Clients may have access to their own contributions to the account during emergencies to be decided on a case-by-case basis with their case manager. Withdrawals under emergencies shall not have a claim on match funds. As with uses listed above, withdrawals shall require the signatures of both the client and the case manager overseeing his/her progress.

Financial institutions shall also provide the AE/GR, or whoever is designated to administer IDAs for the Service Delivery Area (SDA), with regular statements of the status of all IDAs, delineating all deposits and withdrawals.

- 2. Funds withdrawn for reasons “a” through “e” above shall have a claim on WtW match funds at a match ratio to be named in a local IDA policy. WtW clients shall have a claim on Welfare-to-Work funds proportional to the balance of the amount of earned income deposited, and interest on the deposit, in their IDA savings account which has not been withdrawn. (Earned income is defined in section 911 (d)(2) of the Internal Revenue Code of 1986 as wages, salaries, or professional fees, and other amounts received in compensation for personal services rendered.) Approved withdrawals for reasons “a” through “e” above will be matched with WtW funds.

IDAs shall be administered by a not-for-profit organization (an AE/GR or a sub-contractor) as described in section 501(c)(3) of the Internal Revenue Code of 1986 and exempt from taxation under section 501(a) of such code; or by a local government agency acting in cooperation with such a not-for-profit organization.

It shall be the responsibility of the AE/GR to monitor the status of the WtW clients’ IDA savings accounts and to disperse funds proportional to them for approved uses under part 1.a. through e. above.

A client who leaves the program no longer has any claim on WtW funds to match his/her savings account. Once a client is no longer in the program, the savings account is no longer an IDA and the case manager’s signature is no longer to be required for withdrawals.

B. Necessary Local Policy

Every AE/GR that offer IDAs must establish local policy for IDAs within its SDA to determine the following:

- The process/requirements for approval of business plans;
- Whether registration/incorporation with the Secretary of State shall be necessary for business approval;
- The means of homeownership counseling/training;
- Whether homes may be bought on contract;
- Which financial institutions shall be utilized;
AE/GRs should seek those which
 1. are local and convenient to WtW clients and
 2. have low and manageable minimum requirements for opening a savings account.
- The procedure for handling withdrawals from IDAs;
- Whether there will be a penalty for non-qualified withdrawals
 1. In emergencies,
 2. In non-emergencies;
- Which signatures will be necessary for withdrawals;
- The match ratio and timing of match deposit;
- The maximum match amount; and
- Minimum deposit policy.

Effective Date

July 1, 1998

Ending Date

On-going

Action

Once WtW clients are employed, the AE/GRs of Welfare-to-Work funds may establish Individual Development Accounts (IDAs) for them according to these guidelines.

The AE/GRs of Welfare-to-Work funds will also establish consistency through local policy guidelines to determine those aspects of IDA execution left to SDA discretion.

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